

**SERVUS CREDIT UNION LTD.**  
**Interim Condensed Consolidated Financial Statements**  
**For the nine months ended**  
**July 31, 2014**  
**(unaudited)**

**NOTICE OF NO AUDITOR REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

The accompanying unaudited interim condensed consolidated financial statements ("financial statements") of Servus Credit Union Ltd (the "Credit Union") have been prepared by and are the responsibility of the Credit Union's management.

The Credit Union's independent auditor has not performed a review of these financial statements in accordance with standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditor.

**SERVUS CREDIT UNION LTD.**  
**Interim Condensed Consolidated Financial Statements**

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**SERVUS CREDIT UNION LTD.**  
**Interim Condensed Consolidated Statement of Financial Position**  
**(Canadian \$ thousands)**  
**(unaudited)**

	Notes	July 31 2014	October 31 2013
<b>Assets</b>			
Cash and cash equivalents	4	\$ 114,511	\$ 142,310
Investments		1,026,446	803,972
Members' loans	5,7	12,277,880	11,743,165
Assets held for sale		6,878	9,752
Other assets		19,079	12,406
Property and equipment		172,709	178,808
Investment property		6,769	7,404
Derivative financial assets	8	25,466	24,976
Investments in associates		162,144	152,679
Intangible assets		47,723	40,959
Deferred income tax assets		19	19
<b>Total assets</b>		<b>13,859,624</b>	<b>13,116,450</b>
<b>Liabilities</b>			
Secured borrowing		-	17,630
Members' deposits		12,604,272	11,870,882
Trade payables and other liabilities		117,217	136,839
Income taxes payable		1,322	3,470
Provisions		503	454
Derivative financial liabilities	8	6,660	7,547
Investment shares		490	449
Defined benefit plans		7,298	7,283
Deferred income tax liabilities		11,568	11,359
<b>Total liabilities</b>		<b>12,749,330</b>	<b>12,055,913</b>
<b>Equity</b>			
Share capital		528,206	529,009
Retained earnings		580,625	530,067
Accumulated other comprehensive income		447	447
<b>Total equity attributable to members of the Credit Union</b>		<b>1,109,278</b>	<b>1,059,523</b>
Non-controlling interest		1,016	1,014
<b>Total equity</b>		<b>1,110,294</b>	<b>1,060,537</b>
<b>Total liabilities and equity</b>		<b>\$ 13,859,624</b>	<b>\$ 13,116,450</b>

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

**SERVUS CREDIT UNION LTD.**  
**Interim Condensed Consolidated Statement of Income and Comprehensive Income**  
**(Canadian \$ thousands)**  
**(unaudited)**

Note	Three months ended July 31 2014	Three months ended July 31 2013	Nine months ended July 31 2014	Nine months ended July 31 2013
<b>Interest income</b>				
Members' loans	\$ 121,851	\$ 116,660	\$ 361,682	\$ 343,959
Investments	2,393	2,113	6,819	6,674
<b>Total interest income</b>	<b>124,244</b>	<b>118,773</b>	<b>368,501</b>	<b>350,633</b>
<b>Interest expense</b>				
Members' deposits	37,327	34,626	111,078	101,012
Other interest expense	253	466	1,628	1,709
<b>Total interest expense</b>	<b>37,580</b>	<b>35,092</b>	<b>112,706</b>	<b>102,721</b>
<b>Net interest income</b>				
	<b>86,664</b>	83,681	<b>255,795</b>	247,912
Other income	22,061	21,263	60,592	59,459
Share of profits from associates	2,157	1,835	8,570	11,919
<b>Net interest income and other income</b>	<b>110,882</b>	106,779	<b>324,957</b>	319,290
Provision for credit losses	6 4,409	5,576	9,348	8,460
<b>Net interest income after provision for credit losses</b>	<b>106,473</b>	101,203	<b>315,609</b>	310,830
<b>Operating expenses</b>				
Personnel	46,555	47,363	138,096	132,784
General	14,978	14,069	43,298	44,300
Occupancy	5,111	5,273	15,674	15,580
Member security	5,043	4,707	14,669	13,613
Depreciation	3,736	3,599	10,934	10,979
Organization	1,296	1,127	3,657	3,332
Impairment of intangible assets	-	15	-	15
Amortization	1,074	485	2,502	1,270
<b>Total operating expenses</b>	<b>77,793</b>	76,638	<b>228,830</b>	221,873
<b>Income before patronage allocation to members and income taxes</b>				
	<b>28,680</b>	24,565	<b>86,779</b>	88,957
Patronage allocation to members	7,129	6,736	21,302	20,023
<b>Income before income taxes</b>	<b>21,551</b>	17,829	<b>65,477</b>	68,934
Income taxes	5,008	5,406	14,919	16,375
<b>Net income and comprehensive income</b>	<b>\$ 16,543</b>	\$ 12,423	<b>\$ 50,558</b>	\$ 52,559
<b>Net income and comprehensive income</b>				
Members of the Credit Union	\$ 16,542	\$ 12,457	\$ 50,556	\$ 52,578
Non-controlling interest	1	(34)	2	(19)

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

**SERVUS CREDIT UNION LTD.**  
**Interim Condensed Consolidated Statement of Changes in Equity**  
**(Canadian \$ thousands)**  
**(unaudited)**

	<b>Nine months ended July 31 2014</b>	Nine months ended July 31 2013
<b>Share capital</b>		
<b>Common shares</b>		
Balance, beginning of period	\$ 418,161	\$ 393,027
Issued	17,533	21,641
Redeemed	(15,759)	(14,374)
<b>Balance, end of period</b>	<b>419,935</b>	<b>400,294</b>
<b>Investment shares</b>		
Balance, beginning of period	110,848	109,172
Redeemed	(2,577)	(3,088)
<b>Balance, end of period</b>	<b>108,271</b>	<b>106,084</b>
<b>Share capital, end of period</b>	<b>\$ 528,206</b>	<b>\$ 506,378</b>
<b>Retained earnings</b>		
Balance, beginning of period	\$ 530,067	\$ 473,163
Net income	50,558	52,559
<b>Retained earnings, end of period</b>	<b>\$ 580,625</b>	<b>\$ 525,722</b>
<b>Accumulated other comprehensive income (AOCI)</b>		
Balance, beginning of period	\$ 447	\$ 225
<b>AOCI, end of period</b>	<b>\$ 447</b>	<b>\$ 225</b>
<b>Total equity attributable to members of the Credit Union</b>	<b>\$ 1,109,278</b>	<b>\$ 1,032,325</b>
<b>Non-controlling interest</b>		
Balance, beginning of period	1,014	1,032
Net income	2	(19)
<b>Non-controlling interest, end of period</b>	<b>1,016</b>	<b>1,013</b>
<b>Total equity</b>	<b>\$ 1,110,294</b>	<b>\$ 1,033,338</b>

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**SERVUS CREDIT UNION LTD.**  
**Interim Condensed Consolidated Statement of Cash Flows**  
**(Canadian \$ thousands)**  
**(unaudited)**

	<b>Nine months ended July 31 2014</b>	Nine months ended July 31 2013
<b>Cash Flows From (used in) Operating Activities</b>		
<b>Net income</b>	<b>\$ 50,558</b>	\$ 52,559
<b>Adjustments for non-cash items and others</b>		
Net interest income	<b>(255,795)</b>	(247,912)
Provision for credit losses	<b>9,348</b>	8,460
Net income attributable to non-controlling interest	<b>2</b>	(19)
Net income from investments in associates	<b>(8,570)</b>	(11,919)
Depreciation and amortization	<b>13,436</b>	12,249
Gain on assets held for sale	<b>(544)</b>	(165)
(Gain)/loss on sale of property and equipment	<b>(35)</b>	664
Income taxes	<b>14,919</b>	16,375
<b>Adjustments for net changes in operating assets and liabilities</b>		
Change in members' loans	<b>(543,123)</b>	(775,517)
Change in members' deposits	<b>735,309</b>	694,669
Change in assets held for sale	<b>2,733</b>	4,309
Change in derivatives	<b>(1,377)</b>	(962)
Net change in other assets, provisions, and trade payables and other liabilities	<b>(26,189)</b>	(418)
Income taxes received and paid, net	<b>(16,859)</b>	(10,943)
Interest received	<b>366,789</b>	352,466
Interest paid	<b>(114,625)</b>	(102,806)
<b>Net cash from (used in) operating activities</b>	<b>225,977</b>	(8,895)
<b>Cash Flows Used in Investing Activities</b>		
Additions to intangible assets	<b>(9,266)</b>	(14,220)
Additions to property and equipment and investment property	<b>(4,333)</b>	(7,782)
Proceeds on disposal of property and equipment, and investment property	<b>47</b>	2,477
Proceeds on disposal of assets held for sale	<b>806</b>	644
Purchase of Alberta Central shares	<b>(9,305)</b>	(9,500)
Distributions from Alberta Central	<b>8,410</b>	17,068
Investments	<b>(221,702)</b>	(44,977)
<b>Net cash used in investing activities</b>	<b>(235,343)</b>	(56,290)
<b>Cash Flows (Used in) From Financing Activities</b>		
Advances of term loans payable and line of credit	<b>-</b>	24,177
Repayment of secured borrowing	<b>(17,630)</b>	(5,409)
Repayment of obligation under finance leases	<b>-</b>	(115)
Shares issued	<b>17,533</b>	21,641
Shares redeemed	<b>(18,336)</b>	(17,462)
<b>Net cash (used in) from financing activities</b>	<b>(18,433)</b>	22,832
<b>(Decrease) in Cash and cash equivalents</b>	<b>(27,799)</b>	(42,353)
Cash and cash equivalents, beginning of period	<b>142,310</b>	176,832
<b>Cash and cash equivalents, end of period</b>	<b>\$ 114,511</b>	\$ 134,479

The accompanying notes are an integral part of these interim condensed consolidated financial statements

**SERVUS CREDIT UNION LTD.**  
**Notes to Interim Condensed Consolidated Financial Statements**  
**(Canadian \$ thousands)**  
**(unaudited)**

**1. REPORTING ENTITY**

Servus Credit Union Ltd. ("Servus" or the "Credit Union") is incorporated in Canada under the Credit Union Act of the Province of Alberta. The address of the Credit Union's registered office is 151 Karl Clark Road, Edmonton, Alberta. The Credit Union operates in the loans and deposit taking industry regulated under the Credit Union Act. The Credit Union serves Members across Alberta.

The Credit Union Deposit Guarantee Corporation (the "Corporation"), a provincial corporation, guarantees the repayment of all deposits with Alberta credit unions, including accrued interest. The Credit Union Act (The "Act") provides that the Province of Alberta will ensure that the Corporation carries out this obligation.

**2. BASIS OF PRESENTATION**

These interim condensed consolidated financial statements are prepared in accordance with International Accounting Standard (IAS) 34 Interim Financial Reporting as issued by the International Accounting Standards Board (IASB). The interim condensed consolidated financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the Credit Union's 2013 audited annual consolidated financial statements. The accounting policies, methods of computation and presentation of these interim condensed consolidated financial statements are consistent with the most recent 2013 annual financial statements except as described in Note 3.

These interim condensed consolidated financial statements were approved by the Audit and Finance Committee on September 25, 2014.

**Significant Accounting Estimates, Assumptions and Judgements**

The preparation of the financial statements requires management to exercise estimates, assumptions and judgements that affect the application of accounting policies and the reported amounts of assets, liabilities, income, and expenses. These significant estimates, assumptions and judgements have been disclosed in note 2 to Servus' 2013 annual consolidated financial statements. The estimates, assumptions and judgements used in preparation of these interim condensed consolidated financial statements are consistent with the most recent 2013 annual financial statements.

**3. CHANGES IN ACCOUNTING POLICIES**

These interim condensed consolidated financial statements have been prepared following the same accounting policies and methods as those used in preparing Servus' 2013 annual consolidated financial statements, with the exception of accounting policies adopted as a result of the following new and amended accounting standards relevant to Servus effective November 1, 2013.

IFRS 7 – Financial Instruments – Disclosures – Offsetting Financial Assets and Liabilities (Amendment)

IFRS 10 – Consolidated Financial Statements

IFRS 11 – Joint Arrangements

IFRS 12 – Disclosure of Interest in Other Entities

IFRS 13 – Fair Value Measurement

IAS 19 – Employee Benefits (Amendments)

The adoption of the new and amended accounting standards which became effective November 1, 2013 did not have a material impact on these interim condensed financial statements.

**SERVUS CREDIT UNION LTD.**  
**Notes to Interim Condensed Consolidated Financial Statements**  
**(Canadian \$ thousands)**  
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**4. CASH AND CASH EQUIVALENTS**

	As at July 31 2014	As at October 31 2013
Cash on hand	\$ 15,034	\$ 16,996
ATM	17,221	11,431
Foreign exchange cash	269	105
Cash with Alberta Central	79,551	117,891
Cheques and items in transit	2,436	(4,113)
<b>Total</b>	<b>\$ 114,511</b>	<b>\$ 142,310</b>

**5. MEMBERS' LOANS**

	Gross Amount	Specific allowance	Collective allowance	Net Amount	Impaired Loans
<b>As at July 31, 2014</b>					
Residential mortgages	\$ 6,998,217	\$ 589	\$ 437	\$ 6,997,191	\$ 1,192
Commercial mortgages and loans	3,782,312	26,322	2,895	3,753,095	48,143
Consumer loans	1,162,919	2,536	3,969	1,156,414	3,912
Agricultural mortgages and loans	331,412	67	25	331,320	715
	12,274,860	29,514	7,326	12,238,020	53,962
Accrued interest	42,482	2,080	542	39,860	-
<b>Total</b>	<b>\$ 12,317,342</b>	<b>\$ 31,594</b>	<b>\$ 7,868</b>	<b>\$ 12,277,880</b>	<b>\$ 53,962</b>

	Gross Amount	Specific allowance	Collective allowance	Net Amount	Impaired Loans
<b>As at October 31, 2013</b>					
Residential mortgages	\$ 6,607,195	\$ 655	\$ 1,217	\$ 6,605,323	\$ 2,453
Commercial mortgages and loans	3,656,541	25,145	2,509	3,628,887	34,321
Consumer loans	1,145,942	3,395	2,816	1,139,731	5,032
Agricultural mortgages and loans	330,372	46	21	330,305	47
	11,740,050	29,241	6,563	11,704,246	41,853
Accrued interest	40,841	1,420	502	38,919	-
<b>Total</b>	<b>\$ 11,780,891</b>	<b>\$ 30,661</b>	<b>\$ 7,065</b>	<b>\$ 11,743,165</b>	<b>\$ 41,853</b>



**SERVUS CREDIT UNION LTD.**  
**Notes to Interim Condensed Consolidated Financial Statements**  
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**6. ALLOWANCE FOR CREDIT LOSSES**

<b>Specific Allowance</b>	<b>Residential</b>	<b>Commercial</b>	<b>Consumer</b>	<b>Agricultural</b>	<b>Interest</b>	<b>Total</b>
<b>As at October 31, 2013</b>	\$ 655	\$ 25,145	\$ 3,395	\$ 46	\$ 1,420	\$ 30,661
Recoveries of previous loan write offs	5	65	929	6	-	1,005
Allowance charged to net income	457	5,202	1,940	15	931	8,545
	<b>1,117</b>	<b>30,412</b>	<b>6,264</b>	<b>67</b>	<b>2,351</b>	<b>40,211</b>
Loans written off	528	4,090	3,728	-	271	8,617
<b>As at July 31, 2014</b>	<b>\$ 589</b>	<b>\$ 26,322</b>	<b>\$ 2,536</b>	<b>\$ 67</b>	<b>\$ 2,080</b>	<b>\$ 31,594</b>

	Residential	Commercial	Consumer	Agricultural	Interest	Total
As at October 31, 2012	\$ 155	\$ 26,716	\$ 3,143	\$ 10	\$ 1,182	\$ 31,206
Recoveries of previous loan write offs	2	63	1,293	15	-	1,373
Allowance charged to net income	2,143	1,772	4,350	33	1,138	9,436
	2,300	28,551	8,786	58	2,320	42,015
Loans written off	1,645	3,406	5,391	12	900	11,354
<b>As at October 31, 2013</b>	<b>\$ 655</b>	<b>\$ 25,145</b>	<b>\$ 3,395</b>	<b>\$ 46</b>	<b>\$ 1,420</b>	<b>\$ 30,661</b>

<b>Collective Allowance</b>	<b>Residential</b>	<b>Commercial</b>	<b>Consumer</b>	<b>Agricultural</b>	<b>Interest</b>	<b>Total</b>
<b>As at October 31, 2013</b>	\$ 1,217	\$ 2,509	\$ 2,816	\$ 21	\$ 502	\$ 7,065
Allowance charged to net income	(780)	386	1,153	4	40	803
<b>As at July 31, 2014</b>	<b>\$ 437</b>	<b>\$ 2,895</b>	<b>\$ 3,969</b>	<b>\$ 25</b>	<b>\$ 542</b>	<b>\$ 7,868</b>

	Residential	Commercial	Consumer	Agricultural	Interest	Total
As at October 31, 2012	\$ 547	\$ 1,818	\$ 2,973	\$ 2	\$ 439	\$ 5,779
Allowance charged to net income	670	691	(157)	19	63	1,286
<b>As at October 31, 2013</b>	<b>\$ 1,217</b>	<b>\$ 2,509</b>	<b>\$ 2,816</b>	<b>\$ 21</b>	<b>\$ 502</b>	<b>\$ 7,065</b>

**SERVUS CREDIT UNION LTD.**  
**Notes to Interim Condensed Consolidated Financial Statements**  
**(Canadian \$ thousands)**  
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**7. CREDIT QUALITY OF MEMBERS' LOANS**

The following analysis includes individual loans that are impaired, or potentially impaired, based on age of repayments outstanding, in determining the specific allowance. Risk categories are defined by the Corporation and allow management to monitor credit risk.

<i>As at July 31, 2014</i>	Residential	Commercial	Consumer	Agricultural	Total
<b>Risk Categories</b>					
<b>1 to 5 - Satisfactory risk</b>	\$ -	\$ 3,695,627	\$ -	\$ 328,994	\$ 4,024,621
<b>6 - Watch list</b>	-	36,419	-	1,396	37,815
<b>8 - Impaired risk - performing</b>	-	-	-	-	-
<b>7 and 9 - Delinquent but secured</b>	-	2,123	-	307	2,430
<b>Commercial &amp; agricultural mortgages and loans not impaired</b>	-	3,734,169	-	330,697	4,064,866
<b>Residential mortgages and personal loans not impaired</b>	6,997,025	-	1,159,007	-	8,156,032
<b>Loans not impaired</b>	6,997,025	3,734,169	1,159,007	330,697	12,220,898
<b>Loans specifically impaired</b>	1,192	48,143	3,912	715	53,962
<b>Sub Total</b>	6,998,217	3,782,312	1,162,919	331,412	12,274,860
<b>Accrued interest</b>	12,539	14,017	12,995	2,931	42,482
<b>Total</b>	\$ 7,010,756	\$ 3,796,329	\$ 1,175,914	\$ 334,343	\$ 12,317,342

<i>As at October 31, 2013</i>	Residential	Commercial	Consumer	Agricultural	Total
<b>Risk Categories</b>					
1 to 5 - Satisfactory risk	\$ -	\$ 3,587,025	\$ -	\$ 326,956	\$ 3,913,981
6 - Watch list	-	13,884	-	1,869	15,753
8 - Impaired Risk - Performing	-	36	-	-	36
7 and 9 - Unacceptable/impaired risk - non-performing	-	21,275	-	1,500	22,775
Commercial & agricultural mortgages and loans not impaired	-	3,622,220	-	330,325	3,952,545
Residential mortgages and personal loans not impaired	6,604,742	-	1,140,910	-	7,745,652
Loans not impaired	6,604,742	3,622,220	1,140,910	330,325	11,698,197
Loans specifically impaired	2,453	34,321	5,032	47	41,853
Sub Total	6,607,195	3,656,541	1,145,942	330,372	11,740,050
Accrued interest	12,187	12,669	11,955	4,030	40,841
Total	\$ 6,619,382	\$ 3,669,210	\$ 1,157,897	\$ 334,402	\$ 11,780,891

- **Risk Rating 6:** This category includes accounts where there is not a risk for principal or interest at present but performance trend is negative and unless reversed could lead to losses for Servus. This is a transitional rating as the expectation is to be able to upgrade the account within the next 12 month period.
- **Risk Rating 8:** The deterioration in value of the security could make a loss in principal likely. However, the loan is still performing with payments being applied against principal and interest within the contractual terms.
- **Risk Rating 7:** These members exhibit the characteristics in the Risk "6" category but one or more of the following apply:
  - a. Interest is 60 or more days in arrears. (30 days for term loans subject to annual payments)
  - b. Collection of interest is in doubt but there is no exposure for principal.
- **Risk Rating 9:** Same criteria that is established for Risk "7" but there is deterioration in value of the security that could make a loss in principal likely.

**SERVUS CREDIT UNION LTD.**  
**Notes to Interim Condensed Consolidated Financial Statements**  
**(Canadian \$ thousands)**  
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**7. CREDIT QUALITY OF MEMBERS' LOANS (CONTINUED)**

*Loans past due as at July 31, 2014*

	Residential	Commercial	Consumer	Agricultural	Total
<b>Past due up to 29 days</b>	\$ 96,492	\$ 11,342	\$ 15,234	\$ 2,391	\$ 125,459
<b>Past due 30 - 59 days</b>	40,211	41,072	7,312	3,548	92,143
<b>Past due 60 - 89 days</b>	12,007	8,136	1,620	607	22,370
<b>Past due over 90 days</b>	9,776	55,929	3,531	2,535	71,771
<b>Total</b>	<b>\$ 158,486</b>	<b>\$ 116,479</b>	<b>\$ 27,697</b>	<b>\$ 9,081</b>	<b>\$ 311,743</b>

*Loans past due as at October 31, 2013*

Past due up to 29 days	\$ 87,332	\$ 17,529	\$ 11,982	\$ 1,945	\$ 118,788
Past due 30 - 59 days	27,860	16,107	5,432	1,623	51,022
Past due 60 - 89 days	8,498	1,533	1,462	295	11,788
Past due over 90 days	15,671	57,749	4,262	2,722	80,404
<b>Total</b>	<b>\$ 139,361</b>	<b>\$ 92,918</b>	<b>\$ 23,138</b>	<b>\$ 6,585</b>	<b>\$ 262,002</b>

*Loans Past Due but Not Impaired*

Members' loans are considered past due when payments have not been received by the contractual due date. The following table presents the carrying value of Members' loans that are past due but not classified as impaired because they are either (i) less than 90 days past due unless there is information to the contrary that an impairment event has occurred or (ii) fully secured and collection efforts are reasonably expected to result in full repayment.

Members' loans that are past due but not impaired are as follows:

*Loans past due but not impaired as at July 31, 2014*

	Residential	Commercial	Consumer	Agricultural	Total
<b>Past due up to 29 days</b>	\$ 96,481	\$ 11,342	\$ 15,017	\$ 2,391	\$ 125,231
<b>Past due 30 - 59 days</b>	40,211	41,072	7,025	3,548	91,856
<b>Past due 60 - 89 days</b>	12,007	7,275	1,160	607	21,049
<b>Past due over 90 days</b>	8,595	8,647	583	1,820	19,645
<b>Total</b>	<b>\$ 157,294</b>	<b>\$ 68,336</b>	<b>\$ 23,785</b>	<b>\$ 8,366</b>	<b>\$ 257,781</b>

*Loans past due but not impaired as at October 31, 2013*

	Residential	Commercial	Consumer	Agricultural	Total
Past due up to 29 days	\$ 87,332	\$ 17,529	\$ 11,589	\$ 1,945	\$ 118,395
Past due 30 - 59 days	27,788	16,107	5,294	1,623	50,812
Past due 60 - 89 days	8,498	829	878	295	10,500
Past due over 90 days	13,290	24,132	345	2,675	40,442
<b>Total</b>	<b>\$ 136,908</b>	<b>\$ 58,597</b>	<b>\$ 18,106</b>	<b>\$ 6,538</b>	<b>\$ 220,149</b>

The Credit Union has documented policies and procedures in place for the valuation of financial and non-financial collateral. For impaired loans, an assessment of the collateral is taken into consideration when estimating the net realizable amount of the loans.

The amount and types of collateral required depend on the Credit Union's assessment of the Members' credit quality and repayment capacity. Non-financial collateral taken by the Credit Union includes vehicles, residential real estate, real estate under development, business assets such as trade receivables, inventory and property and equipment. The main types of financial collateral taken by the Credit Union include mortgage, cash, negotiable securities and investments. Guarantees are also taken to reduce credit risk exposure risk.

	As at July 31 2014	As at October 31 2013
Loans by security:		
Secured by mortgage	\$ 8,998,316	\$ 8,515,834
Secured by other	2,631,578	2,566,171
Unsecured	687,448	698,886
<b>Total</b>	<b>\$12,317,342</b>	<b>\$ 11,780,891</b>

**SERVUS CREDIT UNION LTD.**  
**Notes to Interim Condensed Consolidated Financial Statements**  
**(Canadian \$ thousands)**  
**(unaudited)**

**8. DERIVATIVE FINANCIAL ASSETS AND LIABILITIES**

	<b>As at July 31 2014</b>	<b>As at October 31 2013</b>
<b>Derivative Financial Assets</b>		
Equity-linked options	\$ 6,756	\$ 7,585
Embedded purchase option	18,710	17,391
<b>Total</b>	<b>\$ 25,466</b>	<b>\$ 24,976</b>
<b>Derivative Financial Liabilities</b>		
Embedded derivatives	\$ 6,660	\$ 7,546
Interest rate swaps and cap options	-	1
<b>Total</b>	<b>\$ 6,660</b>	<b>\$ 7,547</b>

**Equity-Linked Options**

Equity-linked options are used to fix costs on term deposit products which pay a return to the deposit holder based on the change in equity market indexes. The embedded derivative in the term deposit product as well as the option derivatives is marked to market through interest income investments. The fair value of the equity linked derivative contract is separately presented as part of derivative instrument assets.

**Embedded purchase option**

The Credit Union entered into an arrangement with a third party, where the third party acts as an agent to offer credit cards to its members. The agreement lasts for three years and renews automatically unless either party provides notice to terminate. The agreement contains an option for the Credit Union to acquire the underlying consumer loans associated with the credit cards. The exercise price is linked to the book value of the loans and notice of intent to exercise the option must be provided one year prior to the termination of the agreement. The current agreement is due to renew in September 2015.

**Embedded Derivatives**

Certain derivatives embedded in other financial instruments are treated as separate derivatives when their economic characteristics and risk are not closely related to those of the host contract and the combined contract is not carried at fair value. Identified embedded derivatives are separated from the host contract and are recorded at fair value.

**Interest Rate Swaps and Interest Rate Cap Options**

Interest rate swaps and interest rate cap options are used for asset/liability management purposes against changes in interest rates. They involve the exchange of interest cash flows between two parties on a specified notional principal.